Economic &
Planning Systems
Real Estate Economics
Regional Economics
Public Finance
Land Use Policy

MEMORANDUM

To: Richard T. Loewke, AICP

From: Walter Kieser, Richard Berkson, Andrew Wong

Subject: Review of Revised Crossroads Specific Plan Scenarios Summary (EPS #14024)

Date: October 31, 2005

ECONOMIC FEASIBILITY

During the Redevelopment Advisory Committee ("RAC") visioning process for the Contra Costa Center Specific Plan, an economic feasibility analysis was prepared. The economic analysis helped to guide the planning process to assure that proposed land uses, infrastructure and other improvements would be financially viable. To the extent that public funds would be required, the analysis indicated their general magnitude and timing.

Ultimately, future economic conditions and investment decisions by property owners and developers will determine the feasibility of development; however, the economic analysis helps to shape and inform the Specific Plan, and to provide strategic direction to the Redevelopment Agency for implementing the Plan.

The following section summarizes key findings of the economic analysis. Additional detail is available in the prior analysis submitted by EPS to the Redevelopment Agency.[1]

[1] "Review of Revised Crossroads Specific Plan Scenarios", Memorandum from EPS to Richard Loewke, 4/6/2005.

SUMMARY OF FINDINGS

DEVELOPMENT FEASIBILITY AND PUBLIC FUNDING REQUIRED

1. ***Specific Plan development is anticipated to fall short of generating sufficient returns to developers to fully fund costs and provide adequate returns.***

   Based on full buildout of the areas covered by the Specific Plan, previous financial analysis indicated that the funding gap could range from $1 million to $5.6 million; the greater the amount of commercial development, the greater the value created and therefore the smaller the funding gap. The proposed Specific Plan policies encourage maximization of development intensity up to 330,000 square feet of retail space to reduce the amount of public funding required for financial feasibility. Development of 330,000 square feet of retail would not require any significant subsidy to the project. However, this level of development will require a significant amount of two-story retail, which may be challenging to achieve from a market perspective (see Finding #6).

TYPE AND AMOUNT OF POTENTIAL PUBLIC FUNDING SOURCES

2. ***The funding gap can largely be met through the use of various funding sources, including tax increment generated by new development.***

   The prior financial analysis indicated that tax increment could finance the potential shortfalls associated with Specific Plan development, with the exception of a scenario in which the minimum amount of allowed commercial development (245,000 square feet) occurs. An increase to approximately 260,000 square feet could help generate development value and tax increment to close the financial gap.

   In addition to increased development intensity, shortfalls could be addressed by construction of new residential units in Area III as allowed by the Specific Plan. The funding of shortfalls also assumes that all developers contribute towards the cost of shared parking and other area public improvements.

RESIDENTIAL DEVELOPMENT

3. ***Development of residential units in Area III could provide a positive contribution towards shortfalls associated with public improvements required by the Specific Plan.***

   Development of up to 60 units could provide value for public improvements that could help mitigate potential financial shortfalls associated with development of the entire Specific Plan Area. At the lower end of the range, e.g., 35 units, development on Area III could be feasible, but minimal additional value, including tax increment, would be produced. The Specific Plan encourages additional density to improve overall financial prospects.

4. ***Inclusion of residential units in Area III could generate enough project return and tax increment to reduce the need for two-story retail.***

   Since residential use is valued higher than commercial use under the current market, inclusion of residential units in the project could improve project feasibility as noted in Finding #3. Based on the prior analysis, development of 60 residential units could generate funds to eliminate the need for two-story retail and fill the funding gap in Area II.

5. ***Development of residential units in Area III could facilitate the retail development in Area II, and thereby produce more sales tax revenue.***

   By comparison to an "all retail" project, development of residential units in Area III would provide enough funding to start the retail development in Area II at an earlier stage. Such early development in Area II could generate twice as much sales tax revenue initially compared to a project with delayed development and minimal or no retail. However, at full buildout, the "all-retail" development would produce $300,000 more in total sales tax than a scenario with residential in Area III.

TWO-STORY RETAIL

6. ***The Specific Plan allows some amount of two-story retail, which will be challenging to achieve in the near term.***

   Few examples exist in the Bay Area of two-story retail formats except for traditional department stores or large-format apparel stores. Such formats may be found in dense urban areas, and in regional malls where retailers may have no other options for a more preferable single-story layout. Typically those two-story formats, including stores found in Walnut Creek, are not full two-stories but instead include a second story mezzanine visible from the ground floor.

   In recent years, multi-story projects have been proposed for traditional single-story retail, and there are examples of two-story formats being built in major regional and super-regional shopping centers. These examples may become more prevalent, particularly in dense urban areas and areas with strong market support. The Contra Costa Center site currently does not seem likely to attract a significant number of retailers building a two-story format; however, continued population and income growth will require prospects for two-story retail in the future.

   The two-story format could generate greater value, which means that less agency participation would be required.

"BIG BOX" RETAIL

7. ***Development of "big box" retail uses could improve the overall project feasibility and increase sales tax revenue***

   As noted in the March 1, 2005 Memorandum, "big box" retailer is assumed to build its own building and help fund structured parking. These factors would improve the overall project feasibility since much of the development costs are funded by the "big box" retailer. In addition, prior analysis shows that "big box" retail use, such as home improvement center, could generate annual sales tax approximately $250,000 to $350,000 more than other retailers.

   The completion of a new Kohl's Department Store, excellent freeway accessibility, and general compatibility with existing stores make "big box" retail a prospective candidate for the site. However, its establishment could impact the neighborhood and other retailers because of the potential increase in single-purpose traffic volume and its undesirable warehouse-like image.